

DEPARTMENT OF THE INTERIOR

**NAVAJO GENERATING STATION – KAYENTA MINE COMPLEX PROJECT
ENVIRONMENTAL COMPLIANCE QUARTERLY STATUS UPDATE****4th Quarter 2014 (October – December) and 1st Quarter 2015 (January – March)****1. Introduction**

The Navajo Generating Station (NGS) plant lease, and other grants of right-of-way (ROW) associated with NGS power generation and distribution begin to expire on December 22, 2019. NGS is the primary source of energy for the Central Arizona Project (CAP), which supplies over 1.5 million acre-feet (maf) of Colorado River water annually to south-central Arizona. A number of Federal actions and approvals related to NGS and the associated Kayenta Mine Complex (KMC) must occur for continued operations beyond December 22, 2019, through December 22, 2044. These Federal actions require compliance with the National Environmental Policy Act (NEPA), the Endangered Species Act (ESA), the National Historic Preservation Act (NHPA), and other applicable statutes.

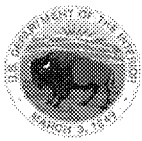
The Department of the Interior (DOI), with the Bureau of Reclamation (Reclamation) as lead Federal agency for completing the environmental compliance requirements for the proposed NGS-KMC Project (Project), is preparing an environmental impact statement (EIS). The Office of Surface Mining Reclamation and Enforcement-Western Region (OSMRE) and Bureau of Indian Affairs-Navajo Region (BIA) are Key Cooperating Agencies due to the Federal actions associated with the Project over which they have jurisdiction. The Project proponents are the Salt River Project Agricultural Improvement and Power District (SRP), which is a co-owner and the operator of NGS, and Peabody Western Coal Company (PWCC), which operates the KMC (collectively, referred to as the Project Proponents). Appendix A provides additional Project background.

This status update report covers the fourth quarter of 2014 (October through December) and first quarter of 2015 (January through March). Please contact either Mr. Russell Callejo (303-445-2918 or rcallejo@usbr.gov) or Ms. Sandy Eto (623-773-6254 or seto@usbr.gov) with any questions concerning the content of these reports.

2. Reporting Period Accomplishments

- **Public Scoping:** Formal public scoping was held from May 16, 2014 through August 31, 2014. A Scoping Summary Report, that describes public scoping activities and summarizes scoping comments, was made available on the Project website at <http://ngskmc-eis.net/public-scoping/>, in December 2014. Relevant comments will be carefully considered in the preparation of the draft EIS currently underway; the EIS is scheduled for publication in summer 2016. Appendix B provides a milestone schedule for the Project.
- **Cultural Resources:** A Cultural Resources Update Meeting (CRUM) was held on December 2, 2014, in Flagstaff, Arizona. The CRUM was well attended with participation from several interested parties, including Tribes and Non-Governmental





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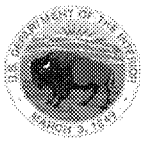
Organizations. The status of major activities was summarized, including a Class I cultural resources overview of the area of potential effect, a data quality assessment survey of a sample of the areas proposed to be mined at the KMC, and ethnographic surveys. Summary notes of all three CRUMs are available on the Project website at <http://ngskmc-eis.net/about-the-eis/environmental-requirements-activities/>.

- **Technical Studies:** Numerous technical studies in several resource areas (e.g., Air, Water, Biology, and Cultural Resources) are currently underway with scheduled conclusion in 2015. These studies will provide essential technical information from which to develop the draft EIS, particularly Chapter 3 – Affected Environment & Environmental Impact Analysis.
- **Cooperating Agencies:** A meeting with participating cooperating agencies was held on October 29, 2014, in Phoenix, Arizona, to discuss Project status and next steps. It was agreed that these meetings would be held as needed, rather than on a periodic basis; the next meeting will be scheduled accordingly. A list of cooperating agencies is available on the Project website at <http://ngskmc-eis.net/about-the-eis/cooperating-agencies/>.
- **Cost Reimbursement Agreement:** In December 2014, Reclamation and SRP executed a cost reimbursement agreement to recoup Reclamation's expenses associated with inherently Federal responsibilities necessary to prepare this EIS.
- **Alternatives Development:** Development of action alternatives to the proposed Project as required under NEPA is currently underway. One hundred sixty-nine proposals have been considered by the EIS team to date; technical evaluation or "screening" criteria helped narrow these to a smaller group of proposals that have been further investigated. Draft final alternatives for inclusion in the EIS have been determined and have been vetted through the Project Management Team or PMT (see Appendix C for a diagram of the PMT structure), DOI management, and legal counsel. Outreach and coordination on the draft final alternatives also will be conducted in the second quarter of 2015 with the Project Proponents, affected tribes, and the Cooperating Agencies.

3. Related Events

- **Navajo Nation Elections:** The Navajo Nation held elections in November 2014; however, the next tribal president remains unresolved due to the disqualification of a candidate during the general election process. An election has been scheduled for April 2015.
- **NGS Ownership Divestitures:** The Los Angeles Department of Water and Power (LADWP) and Nevada Energy (NV Energy) must divest their ownership interests in NGS due to California and Nevada State law, respectively. Negotiations have been ongoing for several months; progress will be monitored and reported in future status updates.





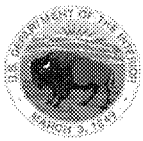
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- Clean Power Plan Proposed Rule: In June 2014, the Environmental Protection Agency (EPA) proposed the Clean Power Plan to reduce carbon emissions from existing power plants under section 111(d) of the Clean Air Act. EPA proposed a supplemental rule in October 2014 that applied to existing power plants in Indian Country and U.S. Territories, including NGS. A final rule is expected in summer 2015. A one unit closure (by 2020) at NGS to comply with EPA's final Best Available Retrofit Technology rule is expected to satisfy carbon reduction requirements under the proposed Clean Power Plan; however, Reclamation will continue to closely monitor Clean Power Plan developments and evaluate potential effects on the EIS process.
- Council on Environmental Quality's (CEQ) Revised Draft Guidance on Integrating Analysis of Greenhouse Gases and Climate Change in NEPA Documents: The Revised Draft Guidance was released by CEQ for a 60-day public review and comment in December 2014. It describes how Federal departments and agencies should consider the effects of greenhouse gas emissions and climate change in their NEPA reviews. Greenhouse gas emissions will be a focal point of this EIS; in addition, the EIS Team recognizes the importance of addressing climate change and has established a climate change team to frame and develop the analysis for inclusion in the EIS.

4. Status of Federal Actions by Statute

Appendix D, Table 1, summarizes the status of compliance activities by major Federal environmental statute, and is accompanied by a list of commonly used acronyms and abbreviations.





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APPENDIX A – Project Background

NGS is a 2,250 megawatt (MW) coal-fired power plant located on land leased from the Navajo Nation in northern Coconino County near Page, Arizona. It has three 750 MW generating units, which provide baseload power to customers in Arizona, Nevada, and California. NGS has five co-owners, including SRP, which also operates the plant. In addition to SRP, which holds a 21.7% share, the other co-owners and their share of ownership are as follows: LADWP (21.2%); Arizona Public Service Co. (14.0%); NV Energy (11.3%); and Tucson Electric Power (7.5%). Moreover, the United States has an entitlement to 24.3% of the power produced at NGS, which is held by SRP for the use and benefit of the United States. Together, these six entities are referred to as the “NGS participants.” All six NGS participants have the same roles and responsibilities regarding major operation- and expenditure-related decisions which require consensus among and agreement of all six NGS participants.

The power held by SRP for the use and benefit of the United States is managed by Reclamation on behalf of the Secretary of the Interior. This Federal share is used to deliver more than 1.5 maf of Colorado River water annually through the CAP facilities, from Lake Havasu in western Arizona to agricultural users, Indian Tribes, and millions of municipal water users in Maricopa, Pinal, and Pima counties, Arizona. Revenues from sale of the United States’ share of power not needed for CAP water deliveries (“surplus power”) are used to help pay annual repayment costs of CAP construction, and to implement Indian water rights settlements described in the Arizona Water Settlements Act of 2004.

Coal used by NGS is supplied by PWCC’s Kayenta Mine, which is located about 80 miles southeast of NGS; the coal is delivered via electric railroad. The Kayenta Mine is located on about 44,073 acres of land leased within the boundaries of the Hopi Tribe and Navajo Nation Indian Reservations in northern Navajo County, near the town of Kayenta, Arizona. Both NGS and the Kayenta Mine are major contributors to the economies of the Navajo Nation, the Hopi Tribe, the city of Page, Coconino County, and the state of Arizona. NGS employs approximately 520 full-time people, and 1,000 temporary workers for yearly maintenance. About 85% of NGS employees are Native American. The Kayenta Mine employs 422 people, of which 87% live on either the Hopi or Navajo Reservation.

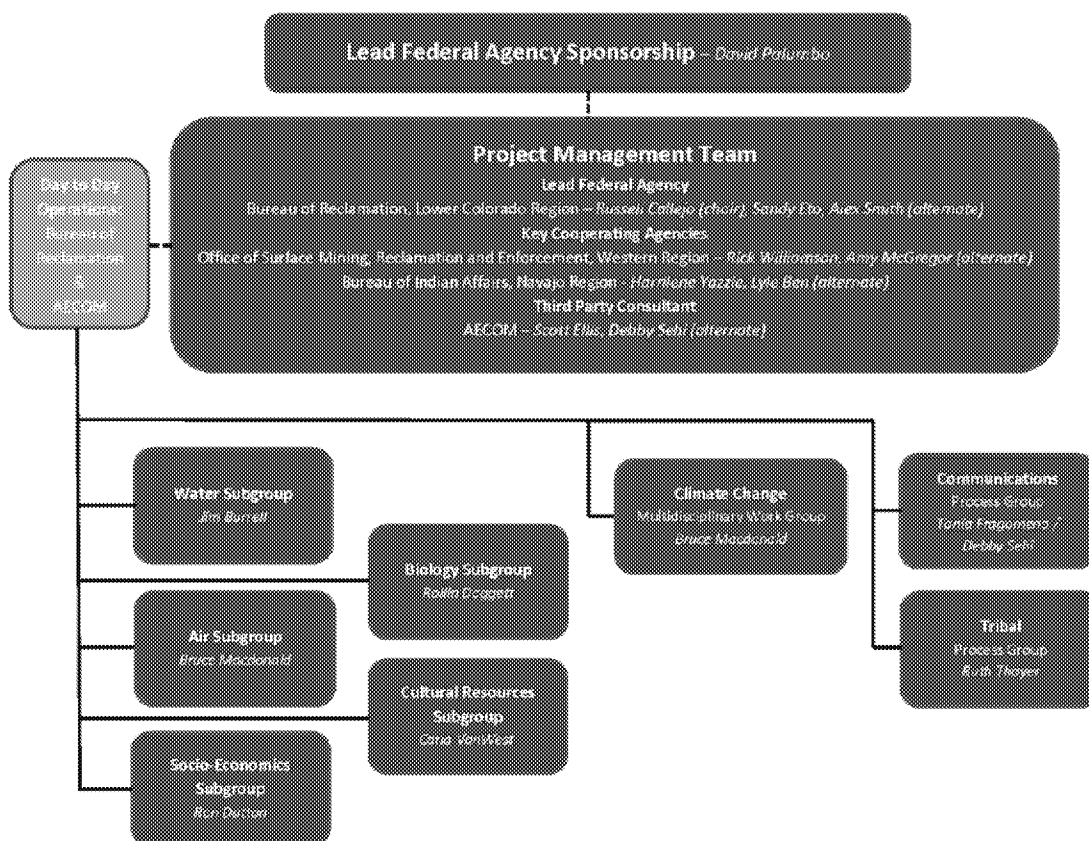


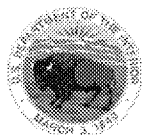


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APPENDIX B – Milestone Schedule

Major Milestones	Target Completion Date	Actual Completion Date
Conduct Initial Tribal Consultations	Spring 2014	July 3, 2014
Notice of Intent	Spring 2014	May 16, 2014
Public Scoping Period	Summer 2014	August 31, 2014
Develop Draft EIS	Summer 2014 – Summer 2016	In progress
Publish Draft EIS and Public Comment Period	Summer 2016	
Develop Final EIS	Summer 2016 – Summer 2017	
Publish Final EIS and 30-day Wait Period	Summer 2017	
Record of Decision	Fall 2017	

APPENDIX C – Project Management Team Graphic



NATIONAL ENVIRONMENTAL POLICY ACT	
Previous Work (4/2012 – 9/2014)	<ul style="list-style-type: none"> Reclamation as lead agency, and OSMRE and BIA as KCA, initiated preparation of an EIS for the NGS-KMC Project, as well as activities associated with other environmental regulatory requirements. On behalf of the Project Proponents, SRP hired AECOM as a third party contractor to assist in preparation of the EIS. SRP also hired ENVIRON to conduct an ERA, HHRA, and related air deposition modeling work. Reclamation hired USGS to peer review the PWCC groundwater model and verify seeps/springs inventory information. Formal public scoping was held May 16, 2014 through August 31, 2014. Ten public scoping meetings were held June 10-June 20, 2014, in the following Arizona locations: Window Rock, Forest Lake Chapter, Kayenta, Shonto, LeChee, and Tuba City on the Navajo Reservation; Kykotsmobi on the Hopi Reservation; and Page, Phoenix, and Marana. Meetings in Forest Lake Chapter, Kayenta, and Kykotsmobi satisfied Informal Conference requirements under SMCRA. An additional scoping meeting was held on Third Mesa of the Hopi Reservation on August 14, 2014; two community outreach meetings also were held on First and Second Mesas, on August 13, 2014. A public website for the Project (www.ngskmc-eis.net) went "live" on May 17, 2014. For the current status of cooperating agencies assisting in the preparation of the EIS, please go to: http://ngskmc-eis.net/about-the-eis/cooperating-agencies/.
Reporting Period (10/2014 – 03/2015) Accomplishments	<ul style="list-style-type: none"> Future water demand assumptions were identified for use in evaluating groundwater impacts. A Cooperating Agencies meeting was held October 29, 2014, in Phoenix, AZ; future meetings will be held on an as-needed basis. A cost recovery agreement was executed with SRP for reimbursement of Reclamation's inherently federal EIS-related costs. A Scoping Summary Report was developed and made available on the Project website: http://ngskmc-eis.net/public-scoping/. Project alternatives development was a focal point; screening criteria were developed and technical analyses performed to evaluate 169 proposals received during public scoping and through other venues. Action alternatives to be evaluated in the EIS have been determined and vetted for inclusion in the EIS. The "Environmental Requirements/Activities" section of the Project website has been updated; please see http://ngskmc-eis.net/about-the-eis/environmental-requirements-activities/. Chapter 1 of the EIS has been reviewed by the Key Cooperating Agencies; Chapter 2 is in preparation. Baseline results for the NGS and KMC HHRA's were presented to the appropriate sub-groups by ENVIRON. Internal milestone schedules of the subgroups have been updated and coordinated with the master milestone schedule. Initial meetings with the Navajo Nation governmental staff were conducted to obtain information for the draft EIS; a request for a similar meeting was sent to the Hopi Tribe.
Next Quarter's Projected Work	<ul style="list-style-type: none"> Outreach and coordination on the action alternatives to be evaluated in the EIS will be conducted with Project Proponents, NGS co-owners, affected tribes, and cooperating agencies. (A meeting with the CAP tribes is scheduled for April 14, 2015.) USGS' evaluation of the suitability of groundwater model(s) for use in evaluating groundwater withdrawal impacts will be completed. Technical studies to inform the draft EIS will continue and interim products/results will be evaluated. Government to Government consultations will be scheduled during the second quarter of 2015. Chapter 2 of the EIS will be reviewed by the Key Cooperating Agencies.





ENDANGERED SPECIES ACT	
Previous Work (4/2012 – 9/2014)	<ul style="list-style-type: none">• FWS confirmed the Phoenix AES, Flagstaff Field Office, will take the lead role in ESA Section 7 consultation; FWS New Mexico native fish staff also will participate.• Reclamation sent requests to State and Tribal agencies for species lists for areas affected by the Project.• Reclamation met with FWS, Navajo, and Hopi biologists to follow-up on requests for species lists, provide background about the Project, and listen to their concerns.• Field trips to both the NGS and Kayenta Mine have taken place.• AECOM mapped species locations based upon input received thus far, coordinating with Navajo, Hopi and FWS to fill any data gaps regarding species locations.
Reporting Period (10/2014 – 3/2015) Accomplishments	<ul style="list-style-type: none">• Reclamation and AECOM met with FWS to discuss the detailed BA outline.• Baseline results for the NGS near-field ERA were presented to the Biology sub-group by ENVIRON.• Reclamation submitted to FWS a proposed species list for areas affected by the proposed action, to be addressed in the BA; FWS' response to this submittal was received; see http://ngskmc-eis.net/about-the-eis/environmental-requirements-activities/.• FWS recommended that surveys be conducted within the Western Transmission System corridor, a portion of which is within critical habitat for the Mohave tortoise, to confirm species presence for any operations and maintenance activities.
Next Quarter's Projected Work	<ul style="list-style-type: none">• Work on the San Juan, KMC, and Gap Region ERAs will continue, with baseline runs anticipated to be available by the end of second quarter/beginning of third quarter CY 2015.• Additional meetings with Navajo Nation, Hopi, and FWS are planned to ascertain any listed species presence at two springs within the mine lease area, if determined appropriate.





NATIONAL HISTORIC PRESERVATION ACT	
Previous Work (4/2012 – 9/2014)	<ul style="list-style-type: none"> Reclamation initially met with the following organizations regarding the proposed Project: AZ, NV, and UT State Historic Preservation Officers; Navajo Nation Cultural Resource Manager; Hopi Cultural Preservation Office and staff; Zuni cultural resources staff; Project Proponents. Letters of interest for NHPA Section 106 consultation also were sent to several Paiute tribes located around NGS. Reclamation held CRUMs in Flagstaff at the Museum of Northern Arizona on October 30, 2013 and May 15, 2014, to update agencies and the interested public on NHPA-related issues regarding the Project. A decision was made to prepare two PAs—one on the KMC, and the other covering the NGS APE. Reclamation staff and SRI Foundation have met several times with affected agencies and the Project Proponents to discuss work related to NHPA Section 106 compliance, and seek input on the draft PAs being prepared. A decision was made that a Class II survey will not be conducted; a Data Quality Assessment Survey of the J21 West proposed mining area and a review of the Class I database will be conducted instead. Field work commenced in September 2014. Meetings were held regarding the Western Transmission System with UT BLM archaeologists on the portion that goes through the Escalante-Staircase Wilderness, and with NPS cultural resources staff for the portion that passes through the Glen Canyon National Recreation Area. Meetings have been held with Navajo and Hopi cultural staff regarding their respective Traditional Cultural Properties (TCP)/ethnographic studies.
Reporting Period (10/2014 – 3/2015) Accomplishments	<ul style="list-style-type: none"> A third CRUM was held December 2, 2014, in Flagstaff, AZ; the next CRUM has not been scheduled. The draft KMC PA was reviewed by OSMRE and BIA. A revised draft KMC PA was reviewed by the Project Proponents; comments have been received and are under review. The Data Quality Assessment Survey was completed and data and recommendations incorporated into the Class I Overview. Reclamation met with Non-Governmental Organizations as a listening session to hear their cultural resources concerns related to the Project. SRP issued a contract for the Navajo Nation ethnographic TCP study to HDR, a consulting firm; HDR has initiated outreach meetings with various Navajo organizations. A contract was issued by SRP for the Western Transmission System Class III survey. A draft NGS PA is under development. A contract for the Hopi ethnography study is being finalized.
Next Quarter's Projected Work	<ul style="list-style-type: none"> The revised draft KMC PA will be distributed for review and comment by the Tribes, SHPO, and Advisory Council on Historic Preservation. A scope of work is being developed for an ethnography study for the tribes and traditional communities along the transmission line systems, communication sites, and other NGS ancillary facilities A draft Class I overview report will be available for Reclamation's review.





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NAVAJO GENERATING STATION-KAYENTA MINE COMPLEX PROJECT 4TH QUARTER 2014 ► TABLE 1. COMPLIANCE ACTIVITIES BY STATUTE

List of frequently used acronyms and abbreviations:

AES	Arizona Ecological Services, FWS	PWCC	Peabody Western Coal Company
AGFD	Arizona Game and Fish Department	Reclamation	Bureau of Reclamation
APE	Area of Potential Effect	SHPO	State Historic Preservation Officer
AZ	Arizona	SMCRA	Surface Mining Control and Reclamation Act of 1977
BA	Biological Assessment	SRP	Salt River Project Agricultural Improvement and Power District
BIA	Bureau of Indian Affairs	TCP	Traditional Cultural Property
BLM	Bureau of Land Management	USGS	U.S. Geological Survey
CAP	Central Arizona Project	UT	Utah
CRUM	Cultural Resources Update Meeting		
EIS	Environmental Impact Statement		
ENVIRON	Consultant conducting various risk assessments		
EPRI	Electrical Power Research Institute		
ERA	Ecological Risk Assessment		
FCPP	Four Corners Power Plant		
FWS	U.S. Fish and Wildlife Service		
HHRA	Human Health Risk Assessment		
ITCA	Inter-Tribal Council of Arizona		
KCA	Key Cooperating Agency or Agencies (OSMRE and BIA)		
KMC	Kayenta Mine Complex		
LADWP	Los Angeles Department of Water and Power		
MOU	Memorandum of Understanding		
NGS	Navajo Generating Station		
NHPA	National Historic Preservation Act		
NOI	Notice of Intent to Prepare an EIS		
NPS	National Park Service		
NV	Nevada		
OSMRE	Office of Surface Mining Reclamation and Enforcement		
PA	Programmatic Agreement		
Project	NGS-KMC Project		

